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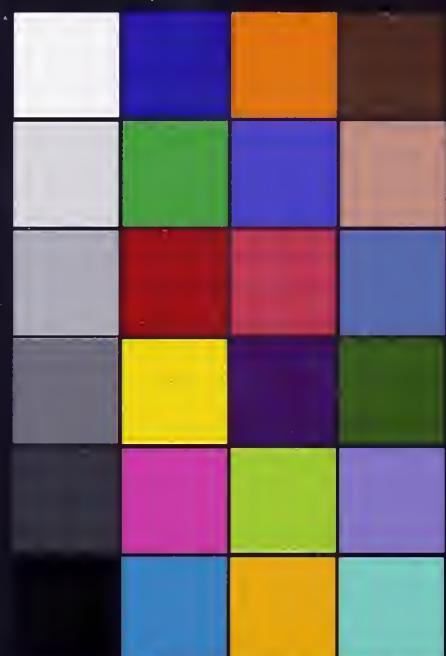
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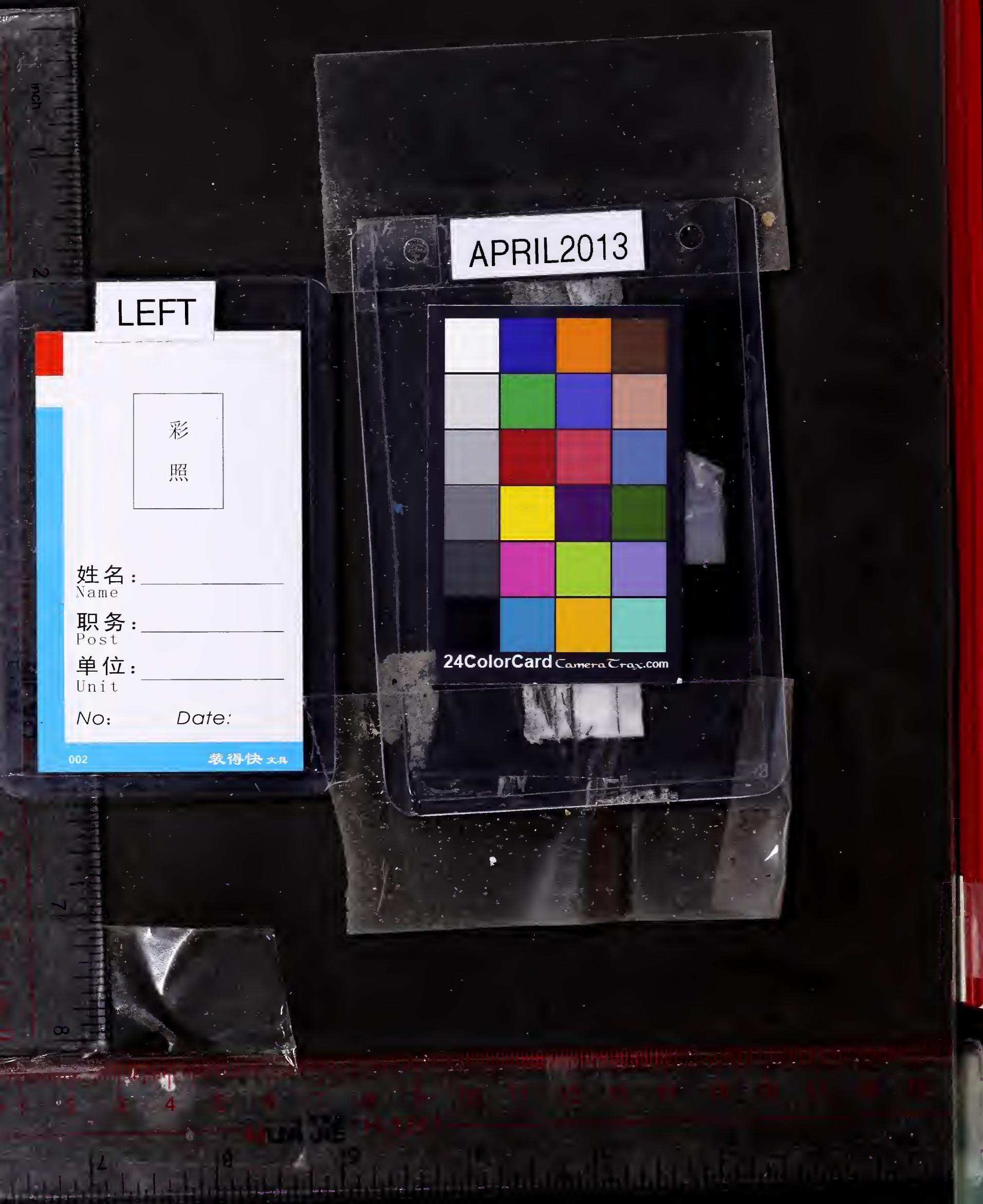
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**XYCOR
Investment and Market
Analysis**

**for
XYCOR Venture, Inc.**

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1986
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AUTHOR

C. MICHAEL DISHALAN

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ANALYSIS FOR VENTURE, INC.**

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**XYCOR
INVESTMENT AND MARKET
ANALYSIS**

XYCOR Venture, Inc.

**September 16, 1986
presented by**

**C. Michael Dishman
Vice President
INPUT**



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OUTLINE

- Objectives
- Methodology
- Interview Profile
- Credit Insurance Industry:
Structure and Dynamics
- Market
- Interview Comments
- Summary of Key Findings
- Recommendations
- Other Considerations

OBJECTIVES

- Near-Term Potential Market
- Propensity to Buy
- Xycor's Likely Market Penetration

METHODOLOGY

- **Meet with Xycor Senior Management**
- **Develop Questionnaires to Address**
 - **Current Systems Status**
 - **Needs of Prospects**
 - **Interests**
 - **Competitive Awareness**
 - **Market Attitudes**
 - **Propensity to Buy**
- **Interview**
 - **Potential Users**
 - **Third Parties**
 - **Existing Users**

INTERVIEW PROFILE

- **23 Insurance Companies**

- **5 Xycor Users**
- **7 Logic Users**
- **11 Prospects**

- **Xycor Users**

- **2 Insurance Subsidiaries of Bank Holding Companies**
- **1 Life Insurance Subsidiary of a Retail Chain Store**
- **Life Insurance Subsidiaries of 3 Consumer/Commercial Finance Companies**

- **6 Prospective Banks**

- **1 Competitor (Logic)**

- **5 Third Parties**

- **2 Automobile Warranty Firms**
- **1 Financial Printing Company**
- **1 Insurance Agency**
- **1 DP Service Bureau**

- **Total = 41 Organizations**

MARKET SEGMENTS

- **Credit Insurance**

- **Insurance Companies**
- **Insurance Brokers**
- **Commercial Banks**
- **Other Financial Institutions**
- **Retail Firms**

- **Warranty Business**

- **Auto Dealers**
- **Other Dealers**

CREDIT INSURANCE INDUSTRY STRUCTURE AND DYNAMICS

- Shrinking Number of Prospects
- Credit Insurance Written by Subsidiaries of:
 - Bank Holding Companies
 - Insurance Companies
 - Finance Companies
 - General Insurance Agencies
 - Retail Chains
 - Credit Card Issuers
- Data Processing Done by All of Above Plus:
 - Service Bureaus
 - Insurance Administrators
- Mainframe Usage Varies Considerably
- Rates in Each State Are Regulated
- Factors for Success
 - Low Overhead
 - Investment Income to Build Reserves and Pay Claims
 - Sufficient Reserves
 - Strong Agent System or Other Marketing Approach
 - Use Reinsurance Market to Spread Risk

MARKET: INSURANCE INDUSTRY

- **US Insurance Companies**
(1985) = 6,830
 - Life = 2,130
 - P&C = 3,500
 - Health = 1,200
- **US Insurance Brokers**
(1984) = 500
 - Top 20 Wrote \$3.6 Billion
 - Top 250 Wrote \$5.6 Billion

COMMERCIAL BANKS

- **US Total (1985) = 14,000**
- **Bank Holding Companies = 6,500**
- **Money Center/Regional Banks = 105**

MARKET: OTHER FINANCIAL INSTITUTIONS

- **Savings and Loan Associations = 3,250**
 - **10% Have In-House Mainframe (325)**
- **Credit Unions = 13,000**
 - **Top 2,700 Account for 70% of Deposits**
 - **30% of Top 2,700 Credit Unions Have Mainframe (800)**
- **Finance Companies = 3,000**
 - **Top 3% Account for 90% of Assets**
 - **40% Use Batch Processing**
 - **5% Use Mainframes**
- **Mortgage Bankers = 900**
 - **Top 11% Account for 70% of Loans**

CREDIT INSURANCE MARKET: RETAIL FIRMS

- **Department Stores (1985) = 6,000**
- **Jewelry Stores (1985) = 10,500**
- **Furniture and Appliance Stores
(1985) = 8,100**

CREDIT INSURANCE: XYCOR TARGETS

- Commercial Banks

- Money Center/Regional Banks (105)
- Bank Holding Companies with IBM Mainframes (1,525)

- Other Financial Institutions

- Largest Savings and Loan (325)
- Credit Unions (800)
- Finance Companies (100)

- Retail Firms

- Department Store Chains (25)
- Jewelry Store Chains (15)
- Furniture Store Chains (125)

CREDIT INSURANCE MARKET: ISSUES AND DRIVING FORCES

- Interest Rates/Economy (6)
- Consumerism/Usage of Credit (5)
- Rate Deregulation (4)
- Increased Competition (3)
- Movement by Bank Holding Cos. to Lines of Credit/Revolving Credit From Individual Purchase Financing (2)
- Expansion of Interstate Banking (1)
- Slowing of Mortality Rates (1)

WARRANTY BUSINESS: U.S. DEALERS

- **Automobile Dealers**
 - **Total (1985) = 24,810**
- **Recreational Vehicle Dealers**
 - **Total = 4,700**
- **Mobile Home Dealers**
 - **Total = 1,800**
- **Motorcycle Dealers**
 - **Total = 2,600**
- **Marine Products Dealers**
 - **Total = 3,100**

WARRANTY BUSINESS: XYCOR TARGETS

- **Auto Dealers**

- **Multi-Location Operations
with In-House Mainframe (120)**

- **Banks or Other Financial Institutions Selling To Dealers of:**

- **RVs**
 - **Mobile Homes**
 - **Motorcycles**
 - **Marine Products**
 - **Appliances**

WARRANTY MARKET: ISSUES AND DRIVING FORCES

- **Extension/Upgrade of Factory Warranty By Auto Manufacturers (3)**
- **Auto Sales (1)**
- **Economy (1)**
- **New Tax Law (1)**

PRODUCT-RELATED COMMENTS

- Strengths
- Weaknesses
- Pricing of Software
- Pricing of Software Customization
- Xycor's Service Bureau
- General Comments

XYCOR'S PRODUCTS STRENGTHS

- **Two Mentions:**
 - **Flexibility**
 - **Ease of Use (XY-Claim)**
 - **"User Friendly"**
- **One Mention Each:**
 - **Availability of Customization**
 - **Good Service**
 - **Good Documentation**
 - **Excellent Understanding of the Business**
 - **SW Provides Good Audit Trail**
 - **High Quality of Reports**
 - **Integrated Software**

XYCOR'S PRODUCT WEAKNESSES

- Three Mentions
 - Long Run-Time
- One Mention Each
 - Long Implementation for Changes to Program
 - Turnover of Personnel Supporting "XY - Warranty" Package
 - "Communication Between 2 Packages" (Packages Not Specified)
 - Reports Are Marketing, Not Finance Oriented
 - Complexity (500-600 Modules Plus JCL Plus Updates)

PRICING OF SOFTWARE

- "On Par With Logic"
- "In the Ballpark"
- "Very Competitive"
- "Much More Competitive than McAuto"

PRICING OF SOFTWARE CUSTOMIZATION

- "Got Money's Worth Due to Difficulty of Conversion"
- "On the High Side -- Not Outrageous -- But Got Our Money's Worth (Even at Twice the Price!)"
- (Compared to In-House) "Reasonable"
- (Compared to In-House) "Even Though More Expensive, It Will Be Cost Effective, Due to Expertise of Xycor Staff"
- (Compared to Other Bids) "Cost Effective"

XYCOR'S SERVICE BUREAU

- "Down a Lot"
- "Changes Were Made to the System with No Notice to Customers" (Happened 3 Times with Changes to Operating System)
- "80% Behind in Reports Promised at Time of Contract Signing"
- No Support to Convert From DOS to OS
- No Compiling/Linkages/ or JCL for Reports

GENERAL PRODUCT COMMENTS

- Needs Easier Integration to Standard Accounting Software (MSA, Etc.)
- "Mainframe Does Everything We Need; System/36 Does Nothing"
- "Complete Modules"

INTERVIEW FINDINGS: SALES, MARKETING, SERVICE

- Purchase Decision
- Advertising and Promotion
- "Hot Buttons"
- Other Comments

PURCHASE DECISION (1)

- Open Ended Questions
- Asked for Top 3 Factors

KEY FACTORS	TOTAL MENTIONS	FIRST PLACE MENTIONS
Cost/Staffing	5	1
Ease of Integration/ Ease of Installation/ Ease of Modification	3	2
Vendor's Expertise	3	0
Performance/Speed	2	0
Improved Software for Claims Handling	2	1
Ease of Use/User Interface	2	1
Service/Updates/ Enhancements/Support	2	1

PURCHASE DECISION (2)

OTHER FACTORS*	FIRST PLACE MENTIONS
Software for Establishing Reserves	1
System that Does Underwriting	1
System that Handles Reinsurance	1
System that Reconciles Production to Certificates	1
Expandability	
Overall Flexibility	
Functionality	
Rated the Documentation	
Flexibility in Programming Commission Payments	

* Received One Mention Each

ADVERTISING AND PROMOTION

- **Three Mentions**

- Ads in "National Underwriter"

- **Two Mentions Each**

- Word-of-Mouth
 - Consumer Credit Insurance Association (CCIA) Meetings

- **One Mention Each**

- Direct Mail*
 - Knew Principal of Xycor
 - Employee Went to Work at Xycor
 - Sales Rep. Contact (Logic)
 - Worked at a Company Which Evaluated Xycor
 - DataPro (Directory)

* Mail sent in 1979-1980; purchase made 3-4 years later!

"HOT BUTTONS"

- **Satisfy Management Reporting Requirements and Statutory Requirements**
- **Sell Consistency and Credibility of Numbers (versus Manual Processing)**
- **Hidden Costs of In-House Solutions (Hire Programmers and Analysts; Get Users to Clearly Define Their Requirements)**
- **Quick Turnaround of Claims/Better Service**
- **Number of Claims Processed per Person**

OTHER SALES/MARKETING COMMENTS:

- **"XYCOR senior managers are not sales people; they are detail people. I was looking for detail people. However, some gladhanding would help a great deal."**
- **"XYCOR's user group is very well received."**
- **"More personalized service."**
- **"XYCOR works with users; meets problems head-on."**
- **"XYCOR has strong loyalty from customers who previously processed claims manually."**
- **"In the past, XYCOR tried to help everyone at once (fast-growth period); now, much better."**

COMMENTS ON COMPETITION

- Competitors Mentioned
- Logic
- Others

COMPETITORS MENTIONED BY RESPONDENTS

- Processing Services
 - Credit Life (Springfield, OH)
 - United Life Services
 - Northwest Data Processing
 - Ryan Insurance (Chicago)
 - Logic
 - Prudential

- Software
 - McAuto
 - US Life
 - ISI (Grumman Subsidiary)
 - Allied Insurance Services (Norcross, GA)
 - Computronics (Addison, IL)
 - LDL (San Diego, CA)
 - Logic

LOGIC (1)

- **Sales and Marketing**

- **"Logic Is a More Sales-Oriented Company than XYCOR"**
- **"More Sales than Service"**

- **Strengths**

- **Flexibility**
- **Market Share**
- **User Group**
- **Reasonable Pricing of Software**
- **Has a "Vendor Single Interest" Package**

LOGIC (2)

- **Weaknesses**

- **"Bigness"/Responsiveness (4)**
- **Lack of Flexibility**
- **Timeliness of Reports**
- **Unsatisfactory Conversion**
- **Frequency of Updates**
- **Processing Service Will Only Support 2 Insurance Products**
- **Not Keeping Current with Industry Changes (2)**
- **Understanding of Warranty Business**
- **Customizing is Priced a Bit High**
- **Does not Care About Interfaces with Xycor**

LOGIC (3)

- **6 of 9 Logic Users/Ex-Users Interviewed Considered Only Logic for Credit Insurance Software, When They Purchased Software.**

OTHERS

- **United Life**

- **"Batch Processing is too Slow"**
- **"Information Is Not as Detailed as Logic"**

- **McAuto**

- **"Offered to Build a Credit Card System as Part of Its Claims System"**

XYCOR'S ADDRESSABLE MARKET: CREDIT INSURANCE MAINFRAME SOFTWARE CUSTOMERS

CATEGORY	Available	Less: Adjustments*	Addressable
Insurance Companies	5,630	5,500	130
Bank Holding Comp.	1,525	1,350	175
Money Ctr./Reg'l Banks	105	10	95
Savings and Loans	325	250	75
Credit Unions	800	750	50
Finance Companies	100	65	35
Retail Firms	165	120	45
<hr/> Total	<hr/> 8,650	<hr/> 8,045	<hr/> 605

* Includes: In-house developed systems; captive processing; well-entrenched competitors and lack of mainframe computers

XYCOR'S ADDRESSABLE MARKET: CREDIT INSURANCE MAINFRAME SOFTWARE EXPENDITURES

CATEGORY	ADDRESSABLE MARKET (\$ Millions)
Insurance Companies	\$ 32.5
Bank Holding Companies	39.9
Money Ctr./Reg'l Banks	28.5
Savings and Loans	18.8
Credit Unions	12.5
Finance Companies	8.8
Retail Firms	12.4
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Total	\$153.4

SUMMARY OF KEY FINDINGS (1)

- Insurance companies have relatively high penetration of credit insurance software and processing services
- Follow-on business at existing XYCOR insurance customers estimated at only 20-25%
- XYCOR credit insurance software:
 - Completeness results in follow-on business equal to monthly software maintenance fees
 - Payment of software mainframes fees limits follow-on business since product is kept up-to-date
 - Initial software customization limits follow-on business
 - Software may be priced too low
 - Customers perceive very high value of software customization; can be priced higher

SUMMARY OF KEY FINDINGS (2)

- **Many insurance companies selling credit insurance have interrelated organizations; data processing of largest firms is relatively concentrated and medium/small firms use processing services/ third-party administrators to process claims.**

INVESTMENT RECOMMENDATION

- Based on Current Products and Market, Proceed with Investment

OPPORTUNITIES

- Mortgage Insurance (3)
- Insurance on Second Mortgages
- Brown and White Goods Extended Warranty
- Homeowner's Warranty
- "Vendor Single Interest" (2)
(Casualty Product for Autos)
- Unemployment Insurance
- Micro-Based software or System to Calculate Quotes (Required By "Truth- In-Lending" LANs) (2)
- Oil Companies' Credit Card Operation

MARKETING RECOMMENDATION

- Concentrate XYCOR's Efforts on Banks and Large Savings and Loans, Credit Unions, Finance Companies and Retail Chains

ADDITIONAL CONSIDERATIONS

MARKETING

- Move Cautiously Toward Newer Markets
 - Do Not Do Customer Education for the Industry
 - Concentrate on Best Prospects
- Change Modules and Reprice XY-Credit/XY-Claims
- Redefine Reprice Software Updates to Generate Additional Revenues
- Build Strategic Alliances with Service Bureaus, Insurance Administrators Servicing Smallest Banks and Insurance Companies. (ex.: Policy Management Systems)
- Price Software for Service Bureaus on a "per Transaction" Basis
- Work More with Bank Holding Companies to Determine Needs

